B4750-1
12/23/82

Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research & Planning Division

Friday (Noon) Dec. 17, 1982

1982, the year of the big bang in the bond markets, is fading out with something of a whimper. This week, prices fell and rates rose, despite the Fed's surprise Monday discount rate cut, as the Treasury financing (Part I) hit markets that weren't very interested. Analysts offered complex fundamental explanations for the glum reception of the financing. These stressed fears of rate jumps ahead, stemming from an economic rebound that would reignite inflation and demand for credit, and/or from possible Fed response to recent rapid monetary growth.

The critical explanation for the markets' disinterest in the financing, however, may be much simpler. 1982 saw dramatic bond price gains, lots of people made lots of money, and few want to risk that with big position shifts before year-end. Another depressant this week was asset selling by money market mutual funds to cover withdrawals. On Tuesday, banks and savings institutions began offering money market accounts (often at initial premium rates); this new competition was presumably a factor in the $4.7 billion (2%) drop in assets held in money market funds in the week ended December 15. Finally, the continuing drop in the U.S. dollar is very probably reducing foreign interest in dollar-denominated assets.

So much for this week; next week may not be much brighter, given that the Treasury will offer $7.5 billion in longer-term issues, and that dealer participation may fade to the vanishing point as the holiday season moves into high gear. Indeed, markets may be very distorted over the next two weeks--what with problems in the longer-term markets and year-end bank positioning distorting short-term markets--and we would not look for basic trends in near-term developments.

What then of prospects for 1983? From October 1979 through mid-1982, interest rates (and through interest rates the money supply) tended to lead the economy. In 1983, the economy may well lead interest rates. This is based on the assumption that monetary targeting will not be reintroduced as the primary policy goal soon. There are technical grounds for this (what is money, given the rapid changes taking place in the financial structure?) and even more compelling economic and financial grounds--12 million unemployed in the U.S., and a severely strained worldwide (and dollar-denominated) financial system. Given these factors, the Fed may continue to pursue a policy focused primarily on real economic trends and considerations of financial stability for some time.

This implies that the scope for interest rate increases is very limited, and that further modest declines are likely, particularly in early 1983. We do project a muted U.S. recovery in 1983, but do not expect this to bring the rate of unemployment below 10%, and do not expect it to reignite inflationary pressure, given potential productivity gains and weak commodities (especially oil) prices. If the economy fails to recover, the Fed is likely to continue to let rates fall, perhaps to levels well below the current range of expectations.

This is our last issue until 1983, and we would like to wish all our readers a joyous holiday season and a happy, healthy and prosperous New Year.

Anne Parker Mills

Irving Trust

Market Yields

	12/17/82 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.50%	11.50%	15.75%
Effective since	11/22/82		
Discount Rate at Federal Reserve Bank	8.50	9.00	12.00
Federal Funds	8.75	8.88	12.25
Repurchase Agreements	8.75	8.75	12.00
U.S. Treasury Issues			
Bills			
3 months	8.02	8.23	11.40
6 months	8.43	8.76	12.35
1 year	8.74	9.02	12.65
Coupons			
2 years	9.58	9.78	13.25
4 years	10.11	10.47	13.80
7 years	10.71	10.78	13.85
10 years	10.58	10.59	13.60
Long Bond	10.67	10.54	13.38
Negotiable Certificates of Deposit-Secondary Market			
1 month	8.70	8.60	12.60
3 months	8.70	8.80	12.85
6 months	8.85	9.00	13.30
1 year	9.25	9.40	13.60
Banker's Acceptances			
1 month	8.70	8.60	12.50
3 months	8.75	8.80	12.80
6 months	8.95	9.10	13.25
Eurodollar Deposits			
1 month	9.56	9.56	13.13
2 months	9.56	9.63	13.25
3 months	9.69	9.75	13.38
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.50	8.63	11.50
1 month	8.50	8.63	12.38
3 months	8.25	8.38	12.25
Bank Holding Companies			
1 month	7.25	7.50	11.50
Dealer Placed:			
3 months	8.13	8.50	12.00
New AA Corporate Utility Bond	12.40	12.00	16.40
Tax Exempt			
6 month Project Notes	4.70	4.90	7.10
1 year AAA Bond	5.00	5.25	7.50
5 year AAA Bond	6.70	7.00	9.25
20 year AAA Bond	9.20	9.50	12.00

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

Cable Address:
"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241
W.U.I. 62832 • French 82629